

RURAL BUSINESS-COOPERATIVE PROGRAM

Statement of John Rosso, Administrator, before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration and Related Agencies

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to present the Administration's Fiscal Year (FY) 2005 budget for Rural Development's rural business and cooperative programs.

Mr. Chairman, the programs and services of Rural Development, in partnership with other public and private sector businesses, continue to improve the economic climate of rural areas through the creation or preservation of sustainable business opportunities and jobs. Rural Development continues to invest in rural America, especially in under-served rural areas and populations. Rural Development programs help close the gap in opportunity for these under-served rural areas and populations, moving them toward improved economic growth by providing capital, technology and technical assistance. The budget requests \$738 million for Rural Business-Cooperative Service programs.

Cooperative Services

The functions of our cooperative programs are authorized under both the Cooperative Marketing Act of 1926, and the Agricultural Marketing Act of 1946. Our programs serve as the focal point of national activity to help farmers and other rural residents help themselves by providing the necessary advice and assistance. We endeavor to enhance the quality of life for rural Americans by encouraging the use of cooperatively owned business as a self-help tool in the marketplace. Our programs of research, technical assistance, education and information, statistics, and assistance in starting

new cooperatives are designed to establish viable business entities that help individual farm operators and other rural residents retain access to markets and sources of supplies and services in a sector that is becoming rapidly vertically coordinated and industrialized. Cooperatives are a means for helping to ensure that rural people are treated more fairly in the marketplace by providing structural strength in dealings with buyers and suppliers.

Some of our State Office technical assistance efforts involve non-agricultural cooperative development. For example, in Wisconsin, our cooperative development specialist was instrumental in developing an effective home health-care cooperative called Cooperative Care. Cooperative Care is a group of home and personal care providers in rural Wisconsin that joined forces with county officials, community leaders, a Federal agency, a technical college, and a community action agency. Together they organized a worker-owned cooperative where the members have a voice and share profits. This program addresses growing concerns about the care of elderly and disabled individuals and provides an efficient alternative to nursing home care.

Rural Cooperative Development Grant Program

For the Rural Cooperative Development Grant (RCDG) Program, the FY 2005 budget requests \$21 million. Of this amount, up to \$1.5 million would be used for projects focusing on assistance to small, minority producers through their cooperative businesses. This program, along with our other Rural Cooperative Development grants, complements our national and state office technical assistance efforts by encouraging the establishment of centers for cooperative development. The centers provide expertise for conducting

feasibility analysis, outreach, and other forms of technical assistance for new and existing cooperatives.

One example is the Family Farm Opportunity Center in Missouri. The Center has helped form, through feasibility and market analysis, the Gateway Beef Cooperative, the Southwest Missouri Natural Dairy, and the Osage Independent Pork Producers. Several other cooperatives are receiving assistance from the Center, most involving the processing and marketing of value-added agricultural products. Among others, the Center targets Missouri counties with the highest percentage of poverty and unemployment.

We are requesting \$500,000 for cooperative research agreements to encourage research on critical issues vital to the development and sustainability of cooperatives as a means of improving the quality of life in America's rural communities. These will address the need for a solid information base on which to render judgments on critical cooperative operational and organizational issues, such as alternative ways of sourcing equity capital from within and outside the cooperative.

The Farm Bill formalized the value-added grant program. Over the past 3 years, 478 grants have been awarded for approximately \$86 million. This program has four components including Value-Added Producer Grants (VAPG), Agriculture Innovation Centers (AIC), Agricultural Marketing Resource Center (AgMRC), and university research on the impact of value-added projects. Eligibility for this grant program was greatly expanded in the Farm Bill and the program encourages applications for grants less than the \$500,000 maximum allowed to provide benefits to as many producers as possible.

For FY 2005, the budget requests \$15.5 million for the value-added grant program. This amount will provide funding for the VAPG and the AgMRC. Funding is not needed in FY 2005 for the AIC program or university research on the impact of value-added projects.

One example of a successful VAPG venture is the Pacific Coast Producers cooperative of Lodi, California. This cooperative used grant funds to pay for the production and marketing of single-serving fruit bowls under the private labels of U.S. retailers. Initially, the cooperative produced single-serving fruit bowls for a national food company under that company's label. The company canceled the contract and began purchasing these items from a foreign company. Pacific Coast Producers viewed this lost contract as an opportunity to capture the emerging market in private label fruit bowls. They have since shipped fruit bowls to 40 customers under 32 different store brands. Those 40 customers have ordered 2 million cases using over 70 tons of fruit. The cooperative has plans to add at least 10 more retail chains to its customer list over the next year.

Another example is Missouri Food and Fiber (MOFF), the first new generation Identity-Preserved (IP) marketing cooperative organized across an entire State. MOFF delivers the highest quality soybeans, rice, corn, wheat, grain sorghum, and cotton to worldwide locations. It specializes in identifying the customer's product needs, matching input seed stock with premium growing environments and managing the IP product during planting, growing, harvesting, storing, transporting, processing, and distributing to the customer's global locations. While MOFF has been extremely successful in the premium IP business, the farmer-owned company is seeking entrance into one of the world's most exclusive and profitable agricultural markets: super-premium, identity-preserved, food-grade tofu beans for the Asian market.

MOFF recently received a grant award of approximately \$82,000 from USDA Rural Development that will allow it to enter this lucrative market.

Business and Industry Guaranteed Loan Program

For the Business and Industry (B&I) Program, the FY 2005 budget includes \$30.2 million in budget authority to support \$600 million in guaranteed loans. We estimate that the funding requested for FY 2005 would create or save about 15,020 jobs and provide financial assistance to 367 businesses. We anticipate continued strong demand for this program.

The B&I program allows lenders to better meet the needs of rural businesses. Through the lender's reduced exposure on guaranteed loans, they are able to meet the needs of more businesses at rates and terms the businesses can afford. B&I guaranteed loans may also be used by individual farmers to purchase cooperative stock in a start-up or existing cooperative established for value-added processing.

I would like to share a story to illustrate how this program, partnering with a local lender, is improving the economic climate in rural Ohio. Harbor Light Landing, owned by the Creative Family Development Group in Port Clinton, Ohio obtained a B&I guaranteed loan in the amount of \$5 million that provided permanent financing for a 72,000 square foot retail facility. The facility will house 35 to 50 retail shops and at least two restaurants in a heavy tourist area along the south shore of Lake Erie. Creative Family Development Group will create 18 jobs to manage the facility and another 300 jobs are expected from the businesses that will locate in the facility.

Intermediary Relending Program

The FY 2005 budget also includes \$15.9 million in budget authority to support \$34.2 million in loans under the Intermediary Relending Program (IRP). We estimate the proposed level of funding will create or save about 26,175 jobs over the 30-year loan term.

Participation by other private credit funding sources is encouraged in the IRP program, since this program requires the intermediary to provide, at a minimum, 25 percent in matching funds. The demand for this program continues to be strong. To illustrate the benefits IRP provides to rural America, I would like to share with you a success story from rural Louisiana. The Coordinating and Development Corporation (CDC) of Shreveport, Louisiana was awarded a \$750,000 IRP Loan. Rural Development funds were used to recapitalize a revolving loan fund to be administered by CDC. CDC is a non-profit, private corporation that was organized in 1954 to administer a wide range of federal, state, and loan development programs and initiatives. CDC's coverage area includes Bienville, Bossier, Caddo, Claiborne, DeSoto, Lincoln, Natchitoches, Red River, Sabine, and Webster Parishes in northeast Louisiana as well as peripheral counties in northeast Texas and southwest Arkansas.

CDC's coverage area includes a special emphasis parish (Lincoln Parish) in the Lower Mississippi Delta Development Initiative and Persistent Poverty Area (Claiborne, DeSoto, Lincoln, Natchitoches, Red River, and Sabine Parishes). In addition, businesses and residents in this area experienced devastating agriculture losses due to Hurricane Isadore and Hurricane Lili in September and October of 2002.

As a result of Rural Development funding, CDC was able to provide low-interest loan funds to area businesses - in turn growing, sustaining, and expanding businesses throughout their coverage area. Because of Rural Development funding, CDC was able to provide critical financial resources to area businesses resulting in 26 jobs created and 205 jobs saved.

Rural Business Enterprise Grant Program

For the Rural Business Enterprise Grant (RBEG) program, the FY 2005 budget includes \$40 million. We anticipate that this level of funding will create or save about 17,200 jobs and impact over 7,900 businesses. The demand for this grant program continues to be strong. The purpose of this program is to assist small and emerging businesses. It is estimated that for each dollar of investment of an RBEG, another \$2.40 in private capital is generated.

Among the many eligible grant purposes under this program is the renovation of existing facilities by the grantee to support small and emerging business development in rural areas. An example of how these funds are leveraged with other Federal, State and Local funds to assist small and emerging business development is found in rural Hamilton County, Florida. Hamilton County is a designated Champion Community and a Rural Economic Development Initiative Community. The Hamilton County Development Authority (HCDA) utilized a \$200,000 RBEG in conjunction with a Business and Industry guaranteed loan of \$450,000, an Economic Development Administration grant of \$750,000, a State Office of Tourism Trade and Economic loan of \$300,000, and a \$156,000 contribution from Hamilton County to construct a multi-tenant facility located in the new Hamilton Industrial Park. The facility has been

leased to four small businesses with 40 jobs being saved and 27 jobs created from the businesses.

Rural Economic Development Loan and Grant Programs

The FY 2005 budget includes \$25 million in Rural Economic Development Loans (REDL) and \$4 million in Rural Economic Development Grants (REDG). This program represents a unique partnership, since it directly involves the rural electric and telecommunications borrowers in community and economic development projects. It provides zero-interest loans and grants to intermediaries, who invest the funds locally. In FY 2003, each dollar invested through these programs attracted an estimated \$6.00 in other capital.

The return on our equity investment in rural America is strong. Two examples demonstrate the impact of REDL and REDG. In Missouri, the REDG program has been utilized by the Intercounty Electric Cooperative to provide improved health care and fire protection to rural residents by using a \$200,000 REDG grant to provide a portion of the financial assistance needed by the Salem Memorial District Hospital to relocate and expand the emergency room and the Raymondville Fire Department to construct a new fire station. In Iowa, the REDL program assisted business development by enabling the Franklin County Rural Electric Cooperative to utilize a \$450,000 loan to assist with financing the construction of a \$3.2 million industrial facility in the Hampton Air Industrial Park, which was in turn leased to Northern Pipe Products. As a result of this business locating in the facility, there have been 11 jobs initially created with a potential for a total of 50 jobs.

Rural Business Opportunity Grant Program

The FY 2005 budget includes \$3 million for Rural Business Opportunity Grants (RBOG) to provide much-needed technical assistance and capacity building in rural areas. The demand for this program continues to grow. We anticipate that this level of funding will create or staff over 8,500 jobs and impact 730 businesses. Many rural areas need to develop economic and community development strategies that will attract private investment capital and Federal and State assistance. Also, the vast majority of rural communities are served by part-time officials who do not have the time or training necessary to compete with large communities for funding that may be available to them. The funds requested under this program will provide invaluable assistance to communities as they take their first step toward overcoming these impediments. The following is an example of how this grant program has been utilized to assist the Qglala Oyate Woitanacan Tribe in South Dakota with sustainable economic development on the reservation. The tribe used a \$39,000 grant to provide technical assistance and training for tribal business development and planning activities identified in the Tribe's comprehensive strategic plan. The project goal is to start five businesses and create 15 job opportunities on the reservation.

Renewable Energy Grants Program

The Renewable Energy Systems and Energy Efficiency Improvements Program was authorized by the Farm Security and Rural Investment Act of 2002. The program authorizes loans, loan guarantees, and grants to farmers, ranchers, and rural small businesses to (1) purchase renewable energy systems, and (2) make energy efficiency improvements. The FY 2005 budget proposes \$10.8 million in discretionary funds. The program supports the President's Energy Policy by helping to develop renewable energy supplies that are environmentally friendly. In addition, the program contributes to local

rural economies through the jobs created and additional income to rural small businesses, farmers, and ranchers. In addition, we anticipate that 15,000 households will be served, and 156 million-kilowatt hours of energy will be generated, while greenhouse gasses will be reduced by 39,000 metric tons. The following is an example of how this program was utilized in FY 2003 to support renewable energy development in rural Illinois. The Illinois Rural Electric Cooperative was awarded a \$438,544 renewable energy grant to construct a 1.65-megawatt wind turbine in rural Pike County. The energy that will be generated from this wind turbine, once constructed and operational, will be distributed to the cooperative members as part of the overall electric power supply to a six county area in west central Illinois served by the cooperative.

Mr. Chairman, and Members of the Subcommittee, this concludes my testimony for the Rural Development FY 2005 budget for rural business and cooperative programs. I look forward to working with you and other Committee members to administer our programs. I will be happy to answer any questions the Committee might have.